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Summary

With a large population and untapped market, insurance is a big opportunity in India. The insurance business (measured in the context of first year premium) registered an impressive growth of 95 percent in 2006-07 (April – March), surpassing the growth of 48 percent achieved in 2005-06. As per the forecast by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) the value of India's thriving insurance sector will grow from the current $12 billion to $48 billion by 2010. ASSOCHAM believes that the private insurance business would see a 140 percent growth rate due to its aggressive marketing techniques and the government-owned insurance companies would see a 35-40 percent growth rate in the next two years.

Historical background

The insurance industry in India was traditionally the domain of government-owned insurance companies such as Life Insurance Corporation (LIC) in the life insurance segment and the General Insurance Corporation (GIC) and its four subsidiaries in the non-life insurance segment. Insurance sector was opened up to private participation in 1999.

At the time of opening up of the sector, life insurance was viewed as a tax saving device. The perspective has slowly been changing towards taking insurance cover irrespective of tax incentives. Since opening up of the insurance sector in 1999, 27 private companies have been granted licenses by 31st March, 2007 to conduct business. Of the 27, 16 were in the life insurance and 11 (including a standalone health insurance company) in non-life insurance.

Regulatory Procedure

Insurance is a federal subject in India. The primary legislations that deal with insurance business in India are Insurance Act, 1938, and Insurance Regulatory & Development Authority Act, 1999. The Insurance Regulatory and Development Authority (IRDA) is an autonomous body, which regulates and develops the business of insurance and re-insurance in the country.

Until the free pricing regime, which was introduced last year, the Indian market in regard to general insurance was substantially driven by a tariff regime. The Tariff Advisory Committee (TAC) is a statutory body created under the Insurance Act, 1938 and except for marine-cargo and various personal lines of business, the insurance industry was governed by tariffs determined by the TAC.

Foreign direct investment (FDI) of up to 26 percent is allowed under the automatic route subject to obtaining license from IRDA. While presenting the union budget for 2004 –05, the Indian Finance Minister had announced the government's intention to hike the FDI cap in insurance from 26 percent to 49 percent. However, due to lack of political consensus, the bill has not yet been tabled in the parliament.

One of the requirements of the Insurance Act is the minimum capital of Rs. 1 billion (approximately $24 million) for an insurer. One of the other requirements for the non-life insurers is to have consulting actuaries who would be certifying the reasonableness of pricing of products, provisioning for reserves etc.

The IRDA in consultation with the Central Government has prescribed that 20 percent of the gross premium would have to be ceded compulsorily to the Indian re-insurer (GIC) by all insurers.

Market Environment

With large population and untapped market, insurance is a big opportunity in India. By end March 2007, there were 17 life and 17 non-life insurance companies (including the national re-insurer).

Life Insurance: The Indian industry services the largest number of life insurance policies in the world. There is scope to further expansion due to a large untapped potential. Government-owned Life Insurance Corporation of India (LIC) is a leader in the insurance sector. Before the deregulation in 1999, which opened the market to private insurers, LIC was the only company in India selling life insurance cover. Current Indian market has presence of aggressive private insurers offering new and varied polices with better returns. LIC's market share is around 70 percent.

Non-life insurance: The competition from private insurers in this sector is more severe as the state-owned general insurance companies have lost about 40 percent market share in seven years. Motor and health insurance have been the drivers of growth in recent years.

Private non-life insurance companies have increased their share of motor insurance by aggressive price cuts and tie-ups with automobile dealers. Private insurers' share of premium from comprehensive insurance of vehicles is 50 percent for 2007-08 against 41 percent a year ago.

Health insurance is emerging as the fastest growing segment in the non-life insurance sector. Over the last five years the premium has nearly doubled. There is an increasing demand for health insurance covers, especially from the middle class. As the requirement of a minimum capital of $24 million is too large for stand alone health insurance business, both life and non-life insurance companies have been going in for rider policies offering a variety of health products.

Property insurance has seen negative growth on account of detariffing, which has resulted in fire insurance premium for the industry declining by 15 percent in one year.

Market Data

As per a recent report by ASSOCHAM, India's insurance sector is likely to reach $48 billion by 2010 from the current level of $12 billion. The private insurance business would see a 140 percent growth rate due to its aggressive marketing techniques. The government-owned insurance companies would see a 35-40 percent growth rate.

The life insurance sector has a penetration rate of just 4.8 percent. The life insurers underwrote a premium of $7.895 billion during the six months from April 2007 to September 2007 as against $7.063 in the comparable period of last year recording a growth of 12 percent. The premium underwritten by the LIC declined by 3 percent while that of private players grew by 67 percent, over the corresponding period in the previous year. Growth has been driven by the sales of unit-linked and endowment insurance plans. The market is expecting life insurers to experience robust growth in premium income by end of the current fiscal year.

The free pricing regime introduced last year resulted in a price war among major non-life insurers resulting in prices in all major segments plummeting. As per IRDA's estimates, average penetration in the non-life segment is around 0.60 percent — low by global standards. Non-life insurers underwrote a premium of $3.310 during the six months from April 2007 to September 2007 recording a growth of 12 per cent over $2.964 underwritten in the same period of last year. The premium underwritten by the government-owned non-life insurers grew by about 4 per cent while that of the private sector non-life insurers recorded a growth of about 25 per cent, over the corresponding period in the previous year.

Competition

The government-owned insurers have 70 percent and 60 percent market share in the life and non-life segment respectively.

Most of the private insurance companies are joint ventures with recognized foreign players across the globe. Leading names among private life players are Bajaj Allianz, ICICI Prudential, Tata AIG and HDFC Life insurance, which are also the fastest-growing private insurers in India. Among the non-life segment, the leading names are ICICI – Lombard, Bajaj Allianz, Reliance General and IFFCI – Tokio.

Market Access Barriers

At present there is an equity restriction and a foreign promoter can hold only up to 26 percent of the equity. Composite registration for life and non-life is not available. The requirement of the minimum working capital of $24 million may be too large in certain cases.

Key Contacts

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